

Long Term Debt

The plans indicated in our annual report with regard to increasing our long-term debt were completed in June and the existing debentures were replaced with \$8,000,000, 8% secured sinking fund debentures, 1972 series, due November 30, 1992. These were placed privately with the same financial institutions which held the previous issue. The other change in our long-term debt was the assumption of a mortgage on property acquired to accommodate the Corporate Service Division. This amounted to \$464,500.

Operations

The substantial increase in sales in recent months is continuing to place a strain on our production facilities but plans, as outlined in our annual report for 1971 to expand our capacity, are proceeding according to schedule. The 130,000 square-foot addition to our main warehouse and the 87,000 square-foot addition to our electronics manufacturing plant are now in operation. The purchase of the facility housing our Service Division, referred to above, and the acquisition of Flexsteel Industries (Canada) Ltd. announced earlier, account for the increase in investments in fixed assets.

Accounts receivable have increased in keeping with the greater sales volume. Inventories, on the other hand, have remained approximately the same because of the demand for our products. It is expected the additional production facilities referred to above will provide the products required to meet demands for the fall selling season. However, it would be unrealistic to assume that the Company can achieve the same percentage increase in the second half that was obtained in the first. Improved merchandising programs and broader product lines tend to level out sales volumes throughout the year.

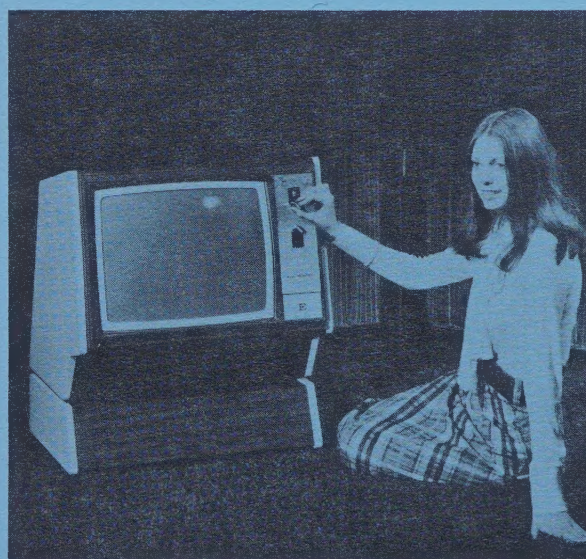
Future Outlook

The planning for improved efficiency and increased productive capacity continues to occupy a significant portion of management's attention. To provide for further expansion, the Company recently announced that it is negotiating with the City of Galt to acquire 15 acres of land in the Industrial Park in order to establish a new motor plant, of approximately 120,000 square feet. This operation is now located in three separate buildings in Kitchener and the proposed move to Galt has been decided on in view of the available work force, the proximity to markets and the greater efficiency that can be achieved in a one-plant operation. Assuming we proceed with this facility, it is expected to cost approximately \$1.2 million. This will be financed out of current working funds.

In summary, we are happy to report that the outlook for the fall selling season and the early part of 1973 continues to be favourable. We expect, therefore, to achieve a new record in sales and profits for the year 1972.

C. A. POLLOCK
Chairman of the Board

AR79



This ultra-modern Electrohome color TV highlights futuristic electronics as well as styling. Most circuits are solid state and featured is a new 'Electrocolor' control for constant color across all channels. The crisp cabinet is walnut with brushed aluminum, fabric and white accents. The 20-inch CONTOUR has all 'Electromatic' controls, plus a 75-ohm cable provision.



an interim report
to shareholders

June 30, 1972

TO OUR SHAREHOLDERS:

Operating results for the first six months of 1972 have continued at the very buoyant levels indicated in earlier reports. This has resulted in record sales for the first half of \$39,076,176, an increase of 54.7% over the same period for the previous year. This, in turn, provided net income after taxes of \$1,736,537 compared to \$615,534 in 1971. This six months earnings record represents 4.4% on sales which is a small fraction higher than was achieved for the entire year 1971 when we reported 4.3%. As we noted in our annual report, this profit when related to sales is now approximately equal to the average earnings for Canadian manufacturers.

At the annual meeting held May 24, 1972, a stock split of five-for-one was ratified, and the effective date of the subdivision took place on June 8. Earnings per share on the new basis for the first six months of 1972 amount to 57 cents compared to 19 cents for 1971 (again making allowance for the stock split).

Sales

The Company is most gratified with the excellent acceptance of its broad range of products and services. A large share of the increase in sales was

provided by the continuing strong demand for our color television receivers. We were again successful in increasing our share of this total market.

A resurgence in black and white TV resulted in a significant increase, and other home entertainment products, such as stereo hi-fidelity and phonographs, also recorded worthwhile increases. Other product lines showing substantial increases are furniture, air conditioners and motors. Our broadcasting facilities are experiencing a continuation of the healthy trend established in the first quarter and our consumer service operations have shown a substantial increase over the previous year.

CONSOLIDATED BALANCE SHEET as at June 30, 1972

	1972	1971
ASSETS		
CURRENT ASSETS		
Cash	\$ 536,908	\$ 174,358
Accounts Receivable	14,655,232	9,456,507
Inventories	18,150,692	18,360,429
Prepaid Expenses	538,546	580,242
	<u>33,881,378</u>	<u>28,571,536</u>
FIXED ASSETS		
Land, buildings, machinery and equipment, at cost	19,045,470	15,249,804
Less: Accumulated depreciation	8,605,993	7,534,506
	<u>10,439,477</u>	<u>7,715,298</u>
Excess of cost over Book Value at date of acquiring shares of subsidiary companies, less amortization	2,552,829	2,408,792
TOTAL ASSETS	<u>\$46,873,684</u>	<u>\$38,695,626</u>

	1972	1971
LIABILITIES		
CURRENT LIABILITIES		
Bank Advances secured	\$10,509,103	\$15,513,900
Accounts payable and accrued liabilities	8,005,636	5,125,321
Sales taxes payable	592,601	447,468
Income and other taxes payable	621,300	(15,818)
Deferred service contract income	380,266	—
Principal instalments due within one year on long-term debt	38,726	246,509
	<u>20,147,632</u>	<u>21,317,380</u>
LONG-TERM DEBT	<u>8,611,626</u>	<u>3,241,966</u>
DEFERRED INCOME TAXES	<u>707,700</u>	<u>734,400</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
16,908 5% Preference Shares (16,973 - 1971)	1,690,800	1,697,300
2,980,900 Common Shares (2,937,900 - 1971)	3,734,469	3,419,269
	5,425,269	5,116,569
RETAINED EARNINGS	<u>11,981,457</u>	<u>8,285,311</u>
	<u>17,406,726</u>	<u>13,401,880</u>
TOTAL LIABILITIES AND CAPITAL	<u>\$46,873,684</u>	<u>\$38,695,626</u>

CONSOLIDATED STATEMENT OF INCOME for six months ended June 30, 1972

	1972	1971
SALES	\$39,076,176	\$25,262,825
Cost of sales, selling, administrative and financial expenses	34,874,980	23,288,678
Income before undernoted items	4,201,196	1,974,147
Depreciation	564,701	453,950
Amortization of excess cost over book value of subsidiaries	33,086	30,491
Interest on long-term debt	113,472	106,972
	<u>711,259</u>	<u>591,413</u>
Income before taxes	3,489,937	1,382,734
Taxes on income	1,753,400	767,200
NET INCOME	<u>\$ 1,736,537</u>	<u>\$ 615,534</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS for six months ended June 30, 1972

	1972	1971
Balance at beginning of year	\$10,515,923	\$ 7,804,247
Add: Net income for six months	1,736,537	615,534
Discount on redemption of preferred shares	1,333	33,016
	<u>1,737,870</u>	<u>648,550</u>
Deduct: Dividends paid - preference shares	48,797	50,240
- common shares	223,539	117,246
	<u>272,336</u>	<u>167,486</u>
BALANCE AT END OF JUNE 30	<u>\$11,981,457</u>	<u>\$ 8,285,311</u>

NOTES:

- 1) Revenues from operation, as well as assets of Flexsteel Industries (Canada) Ltd. acquired January 1, 1972 by Electrohome, included ONLY in the 1972 figures.
- 2) 1971 net income and earnings per common share have been restated to reflect the change in rate of amortization of the excess of cost over book value from a 20 to 40 year period as reported in the third quarter of 1971.
- 3) The number of Common Shares outstanding at June 30, 1971 has been restated to be comparable to the 1972 shares outstanding which reflect a 5 for 1 share split made in June, 1972.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS for six months ended June 30, 1972

	1972	1971
SOURCE OF FUNDS		
Operations		
Net income for six months	\$ 1,736,537	\$ 615,534
Depreciation	564,701	453,950
Amortization of excess cost over book value	33,086	30,491
Deferred income tax reduction	(30,300)	(50,400)
	<u>2,304,024</u>	<u>1,049,575</u>
Increase in long term debt:		
- on acquisition of subsidiary company	151,500	—
- net debenture refinancing	5,010,000	—
- mortgage - acquired	453,496	—
	<u>5,614,996</u>	<u>—</u>
Sale of Fixed Assets	2,502	9,229
Discount on redemption of preferred shares	1,333	33,016
Proceeds from issue of common shares	275,201	96,475
	<u>279,036</u>	<u>138,720</u>
	<u>\$ 8,198,056</u>	<u>\$ 1,188,295</u>

APPLICATION OF FUNDS

Excess of cost over book value at date of acquiring shares of subsidiary company	207,614	—
Additions to fixed assets	2,394,831	855,522
Reduction of long-term debt (net)	35,336	11,285
Dividends paid - preference shares	48,797	50,240
- common shares	223,539	117,246
Preference shares purchased for cancellation	6,400	100,200
	<u>2,916,517</u>	<u>1,134,493</u>
INCREASE IN WORKING CAPITAL	5,281,539	53,802
WORKING CAPITAL AT BEGINNING OF YEAR	<u>8,452,207</u>	<u>7,200,354</u>
WORKING CAPITAL AT JUNE 30	<u>\$13,733,746</u>	<u>\$ 7,254,156</u>

**ELECTROHOME Limited,
and Subsidiary Companies**